

Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 SOE-02 AID-05 CEA-01 CIAE-00
COME-00 DODE-00 EB-08 DOE-15 H-02 INR-10 INT-05
L-03 NSAE-00 NSC-05 OMB-01 PM-05 ICA-20 OES-09
SP-02 SS-15 STR-07 TRSE-00 ACDA-12 AGRE-00 /142 W
-----001742 080627Z /20

R 062024Z SEP 78
FM AMEMBASSY SANTIAGO
TO SECSTATE WASHDC 405

UNCLAS SANTIAGO 6734

EO 11652: NA
TAGS: ENRG, CI
SUBJ: PETROLEUM PRICES PARTIALLY DECONTROLLED

1. ANNOUNCED ON AUGUST 31 AND EFFECTIVE SEPTEMBER 1, THE GOC REMOVED PRICE CONTROLS ON ALL PETROLEUM PRODUCTS EXCEPT LOW OCTANE GASOLINE (REGULAR), LIQUIFIED GAS, AND KEROSENE SOLD AT SERVICE STATIONS (BUT NOT FOR HOME DELIVERY). LOWER INCOME PERSONS ARE RELATIVELY MORE INTENSIVE USERS OF EACH OF THESE PRODUCTS, AND PARTICULARLY OF KEROSENE FOR HOME HEATING IN CHILE. THE GOC ALSO ENDED THE MONOPOLY OF ENAP, THE STATE-OWNED REFINERY, BY DECLARING ALL REFINED PETROLEUM PRODUCTS ELIGIBLE FOR IMPORTATION.

2. A MINISTRY OF FINANCE SOURCE TOLD US THAT THE MOVE ITSELF AND ITS TIMING HAVE NO SPECIAL SIGNIFICANCE OTHER THAN AS A NATURAL EVOLUTION OF CHILE'S FREE MARKET ECONOMIC POLICY. PRICE AND IMPORT CONTROLS ARE CONSIDERED COMPETITIVE DISTORTIONS THAT THE GOC CONTINUES TO REMOVE SYSTEMATICALLY. AS PRODUCT AFTER PRODUCT HAS BEEN ELIMINATED FROM THE ONCE EXTENSIVE LIST OF ITEMS SUBJECT TO GOVERNMENT-SET PRICE CEILINGS, ONLY SIX OTHER PRODUCTS OR CATEGORIES CURRENTLY REMAIN UNDER PRICE CONTROL. THESE ARE: SUGAR, BEER, CIGARETTES, DETERGENTS, CHIPRODAL PRODUCTS (POWDERED MILK

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AND BABY FOODS), AND IMPORTED PHARMACEUTICALS SIMILAR TO THOSE MADE DOMESTICALLY.

3. THE GOC SOURCE WENT ON TO SAY THAT ECONOMIC POLICY MAKERS ARE HOPEFUL THAT REMOVING THESE PETROLEUM PRODUCTS FROM CONTROL WILL INDUCE OTHER INTERNATIONAL COMPANIES TO INVEST AND DISTRIBUTE PETROLEUM PRODUCTS IN CHILE. HE WOULD

NOT SPECULATE, HOWEVER, ON WHEN PRICES WOULD BE FREED ON THE REMAINING THREE PETROLEUM PRODUCTS STILL SUBJECT TO PRICE CONTROL. AN INDUSTRY SOURCE EXPECTS THIS MOVE BEFORE THE END OF THE YEAR, IF THIS FIRST STAGE IS NOT ECONOMICALLY DISRUPTIVE.

4. AS AN EXAMPLE OF FREE COMPETITION AT WORK, THE PRICE OF PREMIUM GASILINE AT THE PUMPS INCREASED FROM 9 PESOS PER LITER ON AUGUST 31 TO A RANGE OF 10.6 TO 12 PESOS IN SEPTEMBER
1. A STABILIZED PRICE OF ABOUT 10.5 PESOS PER LITER IS EXPECTED (\$1.20 PER GALLON).

5. FINANCE MINISTER DE CASTRO COMMENTED TOEMBOFFS ON SEPTEMBER 4 THAT THE FINAL ELIMINATION OF PRICE CONTROLS DEPENDS ON A GRADUAL DECREASE IN THE LEVEL OF GOVERNMENT SUBSIDY. AS SOON AS CONTROLLED PRICES APPROXIMATE INTERNATIONAL MARKET PRICES THE GOC WILL REMOVE THE REMAINING CONTROLS. TO DO SO PRECIPITOUSLY, DE CASTRO ADMITTED, WOULD HAVE AN ADVERSE EFFECT ON THE RATE OF INFLATION WITH NEGATIVE CONSEQUENCES AMONG LOWER INCOME GROUPS.

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Message Attributes

Automatic Decaptoning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM, PRICES
Control Number: n/a
Copy: SINGLE
Draft Date: 06 sep 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 jan 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978SANTIA06734
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780365-0873
Format: TEL
From: SANTIAGO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780998/aaaadcvf.tel
Line Count: 84
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: d473fa56-c288-dd11-92da-001cc4696bcc
Office: ACTION ARA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 29 mar 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1530539
Secure: OPEN
Status: NATIVE
Subject: PETROLEUM PRICES PARTIALLY DECONTROLLED
TAGS: ENRG, CI
To: STATE
Type: TE
vdkvgwkey: odbc://SAS/SAS.dbo.SAS_Docs/d473fa56-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014